

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant(s): William H. Barber et al.	Group Art No.: 3627
Serial No.: 09/903,444	Examiner: Sheikh, Asfand M.
Filed: 09 July 2001	Conf. No.: 9729
For: SYSTEM AND KIOSK FOR COMMERCE OF OPTICAL MEDIA THROUGH MULTIPLE LOCATIONS	

MAIL STOP RCE  
Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

**DECLARATION OF JENS HORSTMANN UNDER 37 CFR §1.132**

Dear Sir:

I, Jens Horstmann, declare that:

1. I am Vice President and Chief Technology Officer of DVDPlay, Inc., of Campbell, California, which manufactures systems for dispensing optical storage media from a kiosk (hereinafter, "DVDPlay systems"), according to the disclosure and claims of U.S. patent application serial no. 09/903,444, filed 09 July 2001 and entitled SYSTEM AND KIOSK FOR COMMERCE OF OPTICAL MEDIA THROUGH MULTIPLE LOCATIONS (hereinafter, "the '444 application"). The '444 application is a continuation-in-part of U.S. patent application serial no. 09/578,631, filed 25 May 2000 and entitled DISK DISPENSING AND RETRIEVAL SYSTEM AND ASSOCIATED METHODS (hereinafter, "the '631 application"), which claims priority of U.S. provisional patent application serial no. 60/135,854, filed 25 May 1999 ("the '854 provisional"), and U.S. provisional patent application serial no. 60/143,601, filed 13 July 1999 ("the '601 provisional").

2. The full right, title, and interests in and to the '444 application are accorded to DVDPlay, Inc. (formerly, FreeFlyr, Inc.), by way of assignments executed on 09 July 2001 and recorded by the USPTO Assignment Division on 21 January 2005, at reel/frame 015589/0542.

3. I am familiar with the official Office Action dated 03 May 2007 in the '444 application and I have reviewed the prior art references cited therein. For example, I have reviewed the following U.S. Patents and published applications:

U.S. Pat. No. 5,159,560 issued to Newell et al. (hereinafter, "Newell");  
U.S. Pat. No. 5,934,439, issued to Kanoh et al. (hereinafter, "Kanoh");  
U.S. Pat. No. 5,095,195, issued to Harman et al. (hereinafter, "Harman");  
U.S. Pat. No. 6,688,523, issued to Koenck (hereinafter, "Koenck");  
U.S. Pat. No. 4,608,679, issued to Rudy et al. (hereinafter, "Rudy");  
U.S. Pat. No. 6,119,932, issued to Maloney et al. (hereinafter, "Maloney");  
U.S. Pat. No. 6,513,015, issued to Ogasawara et al. (hereinafter, "Ogasawara");  
U.S. Pat. No. 6,965,869, issued to Tomita et al. (hereinafter, "Tomita");  
U.S. Pat. Application Publication No. 2004/0064371 by Crapo (hereinafter, "Crapo");  
U.S. Pat. No. 5,769,269, issued to Peters (hereinafter, "Peters");  
U.S. Pat. No. 6,954,732, issued to DeLapa et al. (hereinafter, "DeLapa");

U.S. Pat. No. 6,493,110, issued to Roberts (hereinafter, "Roberts"); and  
 U.S. Pat. Application Publication No. 2001/0037207 by Dejaeger (hereinafter,  
 "Dejaeger").

#### **A. The Market**

4. The DVD rental machine market is shared between DVDPlay, Inc., Redbox Automated Retail, LLC (hereinafter, "Redbox,"), The New Release™ (hereinafter, "TNR"), DVDXpress, and other smaller competitors. To date, DVDPlay, Inc. has deployed about 1,300 DVDPlay systems. Deployment of DVD rental machines by competitors of DVDPlay, Inc. is estimated as follows: Redbox has deployed about 4,200 DVD rental machines, TNR has deployed about 2,000 DVD rental machines, DVDXpress has deployed about 350 rental machines and the other, smaller competitors, combined, have deployed about 300 machines. The DVD rental machine market is expected to net up to \$1 billion in the next few years. See, e.g., "Automated for the People," Exhibit A, pp. A1-A8; see also "Self-Serve Movie Rental Kiosks...", Exhibit A pp. A9-A10.

#### **B. Commercial Success of DVDPlay Systems**

5. The DVDPlay systems have enjoyed considerable commercial success in the DVD rental kiosk market. DVDPlay, Inc., sold about 20 DVDPlay systems to DVDXpress (a franchise operator) in January of 2002. Throughout 2002 and 2003, additional DVDPlay systems were offered to franchisees and tested throughout the U.S., including New York, North Carolina, Texas and California. See, e.g., Exhibit B articles at pp. B3-B10.

In September-December of 2003, Redbox (then a division of McDonald's) entered into agreements with DVDPlay, Inc., and tested about 20 DVDPlay systems in McDonald's restaurants in Washington, D.C. and Las Vegas, Nevada. See, e.g., Exhibit B, pp. B13-B15. The DVDPlay systems were met with an "incredibly positive" response. Exhibit B, p. B17, penultimate ¶. In May-July of 2004 (under terms of a further agreement signed by DVDPlay, Inc. and Redbox in April of 2004), Redbox launched DVDPlay systems in 104 McDonald's locations throughout Denver, Colorado. See, e.g., reference at Exhibit B, p. B23, ¶2. DVDPlay, Inc. began shipping DVDPlay systems to U.S. military bases through operator Tejas Videos, Inc., in July of 2004. By this date, DVDPlay, Inc. had installed over 500 DVDPlay systems in 33 states and in Canada. See Exhibit B pp. B24-B25. Revenue from the DVDPlay systems was about \$4 million in 2004.

DVDPlay, Inc. experienced 200% growth in movie rentals in 2005, as compared to a 14% growth rate of the overall DVD rental market. By January 17 of 2006, more than 4 million movies had been rented from the DVDPlay systems. See Exhibit B, p. B26. Less than six months later, by June 28, 2006, 5 million movies had been rented from the DVDPlay systems. See Exhibit B, p. B30. During the summer of 2006, DVDPlay, Inc. raised more than \$20 million in new financing. See Exhibit B, pp. B28-B29. DVDPlay, Inc. has been awarded the 2007 North American DVD Rental Market Product Innovation of the Year Award for 2007. See Exhibit B, pp. B68-B78.

By March of 2007, Genuardi's markets installed DVDPlay systems in Philadelphia-area stores and Dominick's had installed DVDPlay systems in about half of its 83 Chicago-area stores. See Exhibit B, pp. B31-B33. By May of 2007, DVDPlay, Inc. had deployed about 1,200 DVDPlay systems throughout U.S. grocery stores, including Safeway and affiliates Albertson's and Kroegers. See Exhibit B, pp. B35-36. In June of 2007, DVDPlay kiosks were named as one of the Valley's Top Ten Bargains, by the San Jose Mercury News. See Exhibit B, p. B59, under "Goods and Services". By July of 2007, DVDPlay, Inc. had deployed kiosks in Vons grocery stores. See Exhibit B, p. B61. It is projected that 2,250 DVDPlay systems will be installed throughout the U.S. and Canada by the end of 2007. See Exhibit B, pp. B37-B38; see also pp. B63-B64, noting that

"basically every store (in Canada) with a few exceptions will have the [DVDPlay] machines." p. B63, ¶4.

DVDPlay, Inc. currently holds 16-20% of the movie rental kiosk market, which is expected to net about \$120 million or more, in 2007. DVDPlay, Inc.'s revenue for 2007 is expected to be about \$18 million. DVDPlay, Inc.'s commercial success has been noted by competitors, including indirect competitors such as Netflix, which referenced DVDPlay, Inc.'s positive growth rate in its second quarter, 2007 earnings call. See Exhibit B, p. B48. In September of 2007, DVDPlay, Inc. rented its 10 millionth DVD. See Exhibit B, p. B79.

6. DVDPlay, Inc.'s systems have been selected over competitive movie vending kiosks by companies such as Safeway and its Alliance Partners Stores; Automated Media Systems, Inc.; Capitol DVD; DVD 123, LLC; DVDDirect, LLC; DVDPartners, Inc.; DVDXpress (Video Vending NY, Inc.); Lantec Investment Group, LLC; OnLocation Media Group, Inc.; ThePlayGroup, L.P.; Speedy DVD, LLC; SunStar Communications, Inc.; Tejas Videos, LLC; TxVend Management LLC; Vendflix, LLC; Video II, and Woodland AEM, LLC, in addition to those mentioned in number 5, above. In addition, individuals and small entities (i.e., franchisees) have, in some cases, waited up to a year and a half for a DVDPlay system, despite availability of machines provided by the competitors listed in number 4, above.

7. The success of the DVDPlay systems is directly tied to claimed features, in particular, the claimed combinations of features, in the '444 application.

a) For example, as in claim 1 of the '444 application, DVDPlay systems operate according to a method for distributing optical recorded media to and from users, including coupling one or more kiosks to a central server via the Internet. See, e.g., Exhibit B, pp. B1, ¶2-3 and 6; B7, last ¶; B11, last ¶; B25, ¶2; B26, ¶1. See also letter from Tejas Videos CEO, noting the "huge benefit" of Internet connectivity, Exhibit B, p. B80, ¶3. Each kiosk contains a plurality of optical recorded media. See, e.g., Exhibit B, pp. b1, ¶8; B26, ¶5, B30, ¶4. See also Exhibit C, pp. C2-C3 and C11. Inventory of the optical recorded media of each of the kiosks is determined at the server and operational status of each of the kiosks is routinely obtained at the server. See, e.g., Exhibit B, pp. B1, ¶7; B9, ¶1; B11, ¶¶2 and 6; B20, ¶10; B25, ¶1; B27, ¶1, B80, ¶2 noting reduced costs "due to the ability to remotely manage tasks from one centralized location." The method also includes the step of automatically interfacing with a first user via a touch screen at a first of the kiosks, in a first transaction for first local optical recorded media. See, e.g., Exhibit B, p. B11, ¶5 description of "fully-automated touch-screen interface," see also pp. B1, ¶8; B4, ¶5; B11, ¶5. See also Exhibit C, pp. C1-C5 and C7. The touch screen provides a touch-selectable listing of optical recorded media, including the first local optical recorded media, contained within the first kiosk. See, e.g., Exhibit C, pp. C1-C5 and C7. The first kiosk and the server automatically communicate to authorize the first transaction. See, e.g., Exhibit B, p. B11, especially ¶6 noting intelligent backend that communicates with kiosk and manages credit transactions. See also Exhibit B, p. B9, ¶1; Exhibit C, pp. C6-C9. The first local optical media is dispensed from the first kiosk to the first user if the first transaction is approved. See, e.g., Exhibit C, pp. C6-C9. The method also includes the step of accepting return of the first local optical media into rentable inventory of a second of the kiosks. See, e.g., Exhibit B, pp. B13, ¶2; B15, ¶4; B24, 3; B26, ¶4, noting that "All returned movies are instantly available for re-rental"; B37, ¶2. See also letter from Tejas Videos' CEO, stating that returning to another kiosk is "a huge benefit", Exhibit B, p. B80, ¶3.

b) As in claim 63 of the '444 application, the DVDPlay system operates according to a method for distributing optical recorded media to and from users. A plurality of kiosks are coupled to a central server via the Internet, each of the kiosks configured to dispense a plurality of optical recorded media. See, e.g., Exhibit B, pp. B1, ¶2-3 and 6; B7, last ¶; B11,

last ¶; B25, ¶2; B26, ¶1; B80, ¶2. Each kiosk contains a plurality of optical recorded media. See, e.g., Exhibit B, pp. b1, ¶8; B26, ¶5, B30, ¶4. See also Exhibit C, pp. C2-C3 and C11. Inventory of the optical recorded media of each of the kiosks is determined at the server, and operational status of each kiosk is routinely obtained at the server. See, e.g., Exhibit B, pp. B1, ¶7; B9, ¶1; B11, ¶¶2 and 6; B20, ¶10; B25, ¶1; B27, ¶1; B80, ¶4. The DVDPlay system automatically interfaces with a first user via a touch screen at a first of the kiosks, in a first transaction for first local optical recorded media. See, e.g., Exhibit B, p. B11, ¶5 description of "fully-automated touch-screen interface," see also pp. B1, ¶8; B4, ¶5; B11, ¶5. See also Exhibit C, pp. C1-C5 and C7. The touch screen provides a touch-selectable listing of optical recorded media, including the first local optical recorded media, contained within the first kiosk. See, e.g., Exhibit C, pp. C1-C5 and C7. The DVDPlay system automatically communicates between the first kiosk and the server to authorize the first transaction. See, e.g., Exhibit B, p. B11, especially ¶6 noting intelligent backend that communicates with kiosk and manages credit transactions. See also Exhibit B, p. B9, ¶1; Exhibit C, pp. C6-C9. If the first transaction is approved, the first local optical media is dispensed to the first user. See, e.g., Exhibit C, pp. C6-C9. Upon return, the first local optical media is accepted into rentable inventory of a second of the kiosks. See, e.g., Exhibit B, pp. B13, ¶2; B15, ¶4; B24, 3; B26, ¶4, noting that "All returned movies are instantly available for re-rental"; B37, ¶2; B80, ¶3 noting the "huge benefit" of accepting returns at a second kiosk.

8. In my role as Vice President and Chief Technology Officer of DVDPlay, Inc., I have overseen marketing research in the United States and abroad, concerning systems for dispensing optical storage media from a kiosk. This research has included visiting and/or contacting marketing officials of retail establishments including (but not limited to) Alliance Partner Stores; Blackhawk Marketing, LLC; McDonald's Ventures, LLC (a wholly owned subsidiary of McDonald's Corporation), Coinstar, Inc. and Redbox (a joint venture between Coinstar and McDonald's Ventures, LLC). Prior to my visits and/or contacts, none of these merchants had ever installed, or heard of, any type of system for dispensing optical storage media from a kiosk that included the claimed combination of the '444 application.

In addition, several competitors have approached DVDPlay, Inc. proposing investment in exchange for DVDPlay, Inc.'s proprietary information. For example, representatives from the Italian company HEN srl - Kinetics Technology visited DVDPlay, Inc. in the spring of 2004. Also in the spring of 2004, Paulo Consiglio of Riello Technoware, Italy, met with DVDPlay, Inc. to discuss investment in DVDPlay, Inc. and/or licensing of technology pertinent to the DVDPlay systems. TNR met with DVDPlay, Inc. and indicated a desire to license the DVDPlay system in the spring of 2006. ELO Media of New Jersey discussed structuring a deal with DVDPlay, Inc. at least once, during informal meetings at trade shows.

### **C. Copying By Others**

9. In August of 2003, Redbox visited DVDPlay, Inc., then in Los Gatos, California, after several attempts to break into the movie vending kiosk market with machines by companies such as TikTok and YAF. In September of 2003, Redbox signed a test agreement with DVDPlay, Inc. for 10 of the DVDPlay systems in Washington, DC. See number 5, ¶2, above.

10. In October of 2003, after successful testing in Washington, DC, Redbox engaged in contract negotiations with DVDPlay, Inc. for a higher capacity machine (A350). In April of 2004 Redbox and DVDPlay, Inc. signed a contract (won over prior vendor YAF), and DVDPlay, Inc. was paid for development and intellectual property contributions. In July of 2004, Redbox launched 177 DVDPlay systems in 104 locations throughout Denver, Colorado. Following this test,

Redbox directed DVDPlay, Inc. to build another version of the DVDPlay system, incorporating the features claimed in the '444 application.

11. In September of 2004, McDonald's Ventures, LLC suggested a merger of DVDPlay, Inc. and Redbox; DVDPlay, Inc. and McDonalds began negotiations. At this time, DVDPlay, Inc. was also discussing agreements with or acquisition by companies such as Blockbuster, Inc. and Hollywood Entertainment Corporation. DVDPlay, Inc. later discovered that Redbox and/or McDonald's Ventures, LLC had also engaged Selectron to build a movie vending kiosk. I believe that the arrangement with Selectron resulted from McDonald's Ventures, LLC's concerns over potential competitive agreements with Blockbuster, Inc. or Hollywood Entertainment Corporation.

12. In January of 2005, merger documents were finalized and ready for signature. Outside investors U.S. Venture Partners and GRP submitted a \$30 million term sheet for the new (merged) company. See redacted e-mail referencing term sheet at Exhibit D, pp. D1 and (particularly) D2. However, on January 28, 2005, McDonald's called off the merger deal. See redacted e-mail from McDonald's Corporation, Exhibit D, pp. D3-D5. This was followed by an official letter on January 31, 2005.

13. In the spring of 2005, Redbox/McDonald's deployed the first Selectron machines in Houston. DVDPlay, Inc. photographed these machines and found similarities between the DVDPlay systems, as claimed, and the Selectron machines. DVDPlay, Inc. believes that Selectron copied claimed features of the DVDPlay systems (which were in the possession of Redbox/McDonald's), such as the combinations of the '444 application. See, e.g., Exhibit D comparison of flow and screen shots between the DVDPlay systems and the Selectron machine, pp. D6-D15. See also Exhibit E, pp. E4, ¶4 for Redbox's description of touch screen and credit-card rental; E9, ¶1 for Redbox reference to returning rented items to any kiosk.

14. See reference to ease of touch screen rental at ¶5. See p. E4, ¶4 touting convenience of credit-card rental and touch screen. See also p. E6, wherein Redbox's CEO states "Redbox's proven technology and unmatched value and convenience have allowed us to expand at an incredible rate", and consider the aforementioned Exhibit E paragraphs citing features claimed by DVDPlay, Inc. (i.e., return at any location, touch screen, credit card transactions) as convenience/ease factors. Further note the inaccurate statement by Redbox's CEO that returning to any kiosk is "unique to Redbox." at p. E9, ¶1.

15. Copying was of such concern that the terms of a November 17, 2005 LLC Interest Purchase Agreement between Coinstar, Inc., Redbox and McDonald's Ventures, LLC included a clause indemnifying Coinstar against any and all losses arising out of a breach of Redbox/McDonald's (referred to as "Ventures") representation and warranty that Redbox IP did not infringe or constitute misappropriation of any claim of any DVDPlay, Inc. patent issued on or granted from the '444 application. See Exhibit D copy of FORM 8-K S.E.C. report by Coinstar, Inc. See especially Representations and Warranties at pp. D39 (item (c)) and D40 (item (d)), Indemnification at p. D55.

## **D. Commercial Success of Others Due to Copying DVDPlay Systems**

16. Redbox is the largest supplier within the DVD rental kiosk market. See number 4, above. DVDPlay, Inc. believes that Redbox copied claimed features of the DVDPlay systems after purchasing and experimenting with the DVDPlay systems (see "Copying by Others, above). In particular, DVDPlay, Inc. believes that Redbox copied the combination of claims 1 and 63. Prior to DVDPlay, Inc.'s '444 application and/or the parents to which the '444 application claims priority (the '631 application, the '854 provisional and the '601 provisional), this combination was not known (note, for example, that the Examiner of the '444 application does not find this combination

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in any of 13 references currently cited against the '444 application in accordance with 35 U.S.C. §103).

17. After the filing of the '444 application and the parent '631 application, the DVD kiosk rental market experienced explosive growth, as evidenced by DVDPlay, Inc.'s own commercial success and the commercial success of competitors such as Redbox. See Exhibits A and B and Exhibit F, which provides several articles evidencing commercial success of Redbox. Also after the filing of the '444 application, the vast majority of machines in the kiosk rental market utilize the combination of features claimed in the '444 application. These factors evidence a direct nexus not only between the claims of the '444 application and commercial success of DVDPlay, Inc., but also between the claims of the '444 application and the increased commercial success of the DVD kiosk rental market, since the filing of the '444 application. See, e.g., Exhibit D p. D63 article regarding Redbox's success in renting over 3 million DVDs and noting "Customers have enthusiastically embraced the... convenient return options and easy self-service operation of the kiosk." See also Exhibit E p. E2 regarding Redbox's 38 million rental mark and again linking "rent-and-return anywhere policy" with growth, at ¶1. See reference to ease of touch screen rental at ¶5. See p. E4, ¶4 touting convenience of credit-card rental and touch screen. See also p. E6, wherein Redbox's CEO states "Redbox's proven technology and unmatched value and convenience have allowed us to expand at an incredible rate", and consider the aforementioned Exhibit E paragraphs citing features claimed by DVDPlay, Inc. (i.e., return at any location, touch screen, credit card transactions) as convenience/ease factors. Further note the inaccurate statement by Redbox's CEO that returning to any kiosk is "unique to Redbox." at p. E9, ¶1; see also p. F16, ¶2 for return anywhere option. See also article regarding success of DVD rental dispensers at Exhibit B, pp. B65-B67, particularly, statement by chief executive of DVDNow Kiosks, noting "[T]here's no question that Red Box and DVDPlay are experiencing phenomenal results, with growth many, many times the industry average of a traditional video store," Exhibit B, p. B66, third paragraph from bottom.

I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that the statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the United States Code and that such willful false statements may jeopardize the validity of the Application or any patent issued thereon.

Respectfully submitted,

  
Jens HorstmannOct 30<sup>th</sup>, 2007  
Date